



The President's Daily Brief

July 3, 1975

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~~*Top Secret*~~ 25X1

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UK

The government's threat to limit wage and price increases unless union and industrial leaders agree to voluntary restraints forces labor and industry to consider inflationary control sooner than expected. The government plans to issue a white paper next week outlining its economic program.

Chancellor of the Exchequer Healey announced in Parliament earlier this week that the government proposed to reduce the rate of inflation to 10 percent. Unless voluntary restraints fall in line with this target, the government will limit the funds available to the nationalized industries for wages and, through price controls already on the books, limit the ability of private employers to pass on pay increases. In this way, the government could in practice control wages and prices without having controversial wage-control measures on the books. The unions would face a choice between higher unemployment or limited wage increases.

The government probably will follow through with its threat because a voluntary restraint program appears doomed from the start. Leaders of the Trades Union Congress have no control over individual unions, and union leaders are unable to keep the rank and file in line. The miners are likely to present the first problem with voluntary compliance. They have already announced that they will be seeking wage increases of up to 65 percent.

Healey may foresee a period of labor unrest if the government acts. He commented yesterday that the government opposes the application of criminal sanctions against the unions or individual workers.

Political Consequences

Despite the magnitude of the problems he faces, Prime Minister Wilson is likely to remain head of the party and government at least until some time next year.

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--Wilson still has an effective majority of one in Commons, and even if that seat--now in jeopardy--is lost, he can rely on the support of Scottish and Welsh nationalists and on one Ulster vote for much of his legislation. Many Tories too can be expected to vote with the government on measures aimed at solving the country's problems. Even if the left-wing Laborites in Parliament disagree with Wilson's proposals, they prefer him to a Tory prime minister.

--Wilson himself is not likely to call an election now. Although the Tories have offered no alternative economic program, the general voter dismay with the deteriorating economy would lead to a defeat for Labor. Wilson got this message through the Tory victory in a recent by-election. He also remembers that former prime minister Heath lost an election fought over similar economic issues.

--Wilson is likely to remain party leader even though many of the left wing would like to dump him. The left has no candidate acceptable to the rest of the party and to the electorate at large. The party headed by a left-winger would be at a disadvantage should it face a general election.

--The Tories would not want to force an election in the near future, even if they had the parliamentary strength to do so. They cannot agree on how to solve the country's economic problems; two years ago when Heath imposed statutory wage and price controls, many Tories opposed his program. They also have a new and untested leader in Margaret Thatcher. Many Tories found her performance disappointing during the campaign preceding the EC referendum.

--A coalition government composed of the Labor, Conservative, and possibly the Liberal parties is not in the cards at this time, although the British press has been speculating about such a possibility for over a year. Britain's troubles are not of the magnitude reached during the Great Depression or World War II, and no politician hoping to lead his or her party to victory is prepared to participate in a coalition at this time.

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*FOR THE PRESIDENT ONLY*Economic Consequences

The new anti-inflation policies proposed by Healey would reinforce the current decline in demand by limiting government spending. These policies would not have a substantial effect on key indicators, however, until late this year or early 1976. Wages for most workers for the rest of this year have already been negotiated, so tighter controls would not begin to affect labor costs until late in the fall. Cost increases already in the pipeline, resulting from depreciation of the pound and record wage settlements, have not fully filtered through to consumers. As these costs are reflected in market prices, the purchasing power of consumers will be further squeezed.

Weak and declining demand, as well as the possibility that tighter wage-price controls will squeeze corporate profits, make it unlikely that the trend of increased unemployment will be reversed soon. There are already 900,000 unemployed, and by early 1976 there are likely to be 1.5 million Britons out of work. This would raise unemployment to its highest level since the end of the depression. Britain's best hope for recovery in the near future lies in an upturn in the world economy that would sharply increase exports from the UK.

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AZORES

The Azorean Liberation Front reportedly is seeking support in Western Europe for its plans to separate the Atlantic islands from the Portuguese mainland by force.

An emissary of the Front who traveled to West Germany and France last week to seek financing and armaments failed to obtain governmental support, but claims he was promised assistance by representatives of the conservative wing of the West German Christian Democratic Union/Christian Social Union. There is no indication that the Christian Democrats have decided to support the separatists, but

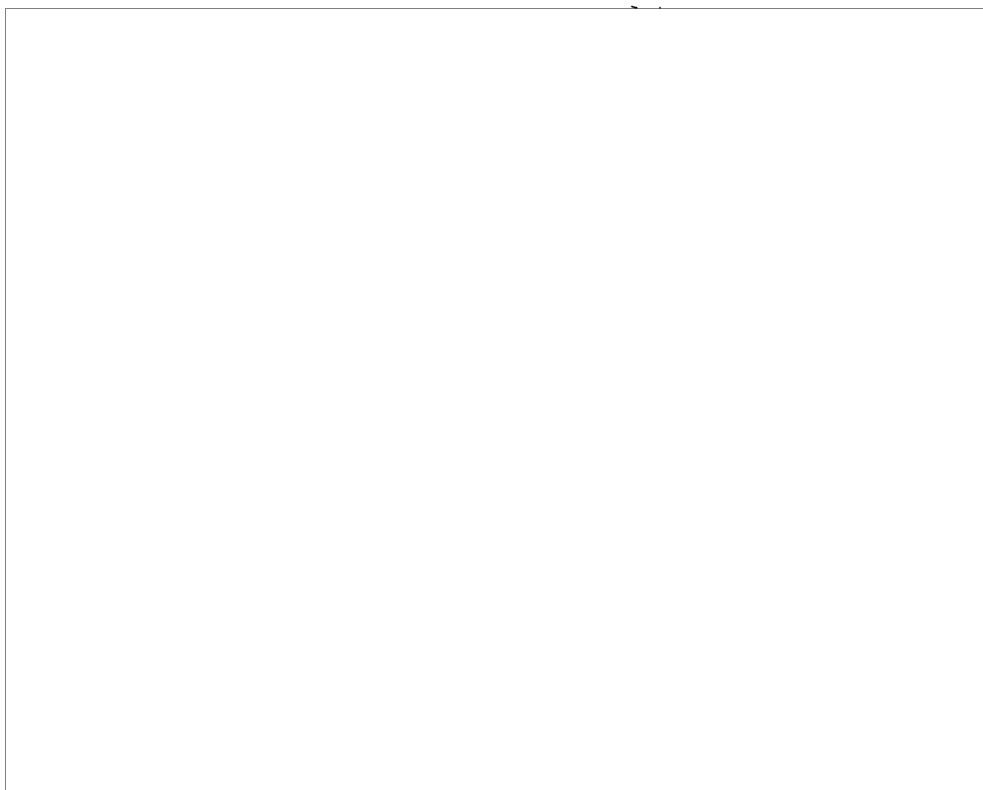
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Franz Josef Strauss--chairman of the Christian Social Union--said he was interested in Azorean independence. A group of conservatives may try to obtain party support for the independence movement, and if this fails they might provide some assistance on their own.

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The US consul in Ponta Delgada has been contacted by Miranda, commander of the 18th Battalion, who has been rumored to be supporting the separatists. He said a group of radical officers were trying to oust him and the military governor. He gave no indication of his attitude toward the separatist movement, but he asked somewhat cryptically about US policy toward the Azores.



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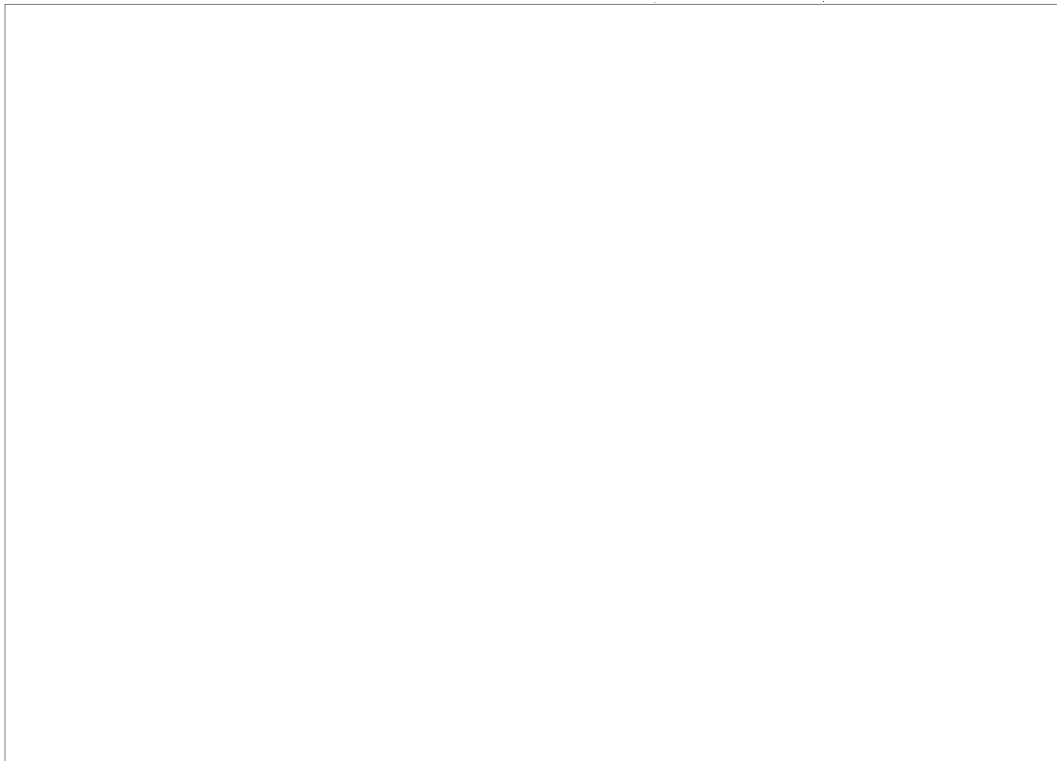
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Lao demonstrators reportedly intend to attack and possibly occupy part of the US embassy compound in Vientiane tonight.

According to the US chargé, several senior coalition government officials--including both Prime Minister Souvanna Phouma and Lao communist leader Souphanouvong, who almost certainly know of the possibility of demonstrations--are planning to absent themselves from Vientiane today. Pathet Lao Deputy Prime Minister Phoumi Vongvichit remains in the Lao capital, but has been described by his aides as "too tired" to see US officials. The US chargé has been trying to gain an audience with Phoumi to secure his cooperation in heading off the threatened demonstrations and to protest the week-long occupation of four American installations in Vientiane by Pathet Lao troops and armed civilian demonstrators.

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Australian Prime Minister Whitlam's firing of Deputy Prime Minister Cairns from his cabinet has put the Labor government under the most serious strain it has experienced since assuming office two and one half years ago.

Whitlam dismissed Cairns--the most prominent member of the party's left wing--out of dissatisfaction with his deputy's explanation of questionable financial dealings. Adding to disarray in the party, many Laborites are blaming Whitlam for Labor's defeat in a by-election last weekend. Tensions will increase if Whitlam tries to push the party caucus to replace Cairns as deputy party leader. The opposition Liberal-Country Party coalition had not previously indicated an intention to push for national elections. Should the Labor Party's difficulties increase, however, it may try to force the government to the polls.

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Jordan [] has rejected a request from the Palestine Liberation Organization to permit Palestinian commandos to pass through Jordanian territory to the West Bank.

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This latest PLO initiative may be a reflection of the Palestinians' frustration over the apparent failure of the Jordanians to make any meaningful concessions to the PLO during the talks between King Husayn and Syrian President Asad last month.

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China has sharply criticized Indian Prime Minister Gandhi over events of the last few days, leveling the harshest personal attack against her for some time.

The Chinese stressed Soviet support for Gandhi's moves, charging that she is attempting to act as Moscow's "subregent" so that the USSR can maintain its control of India and its influence in South Asia. Peking may believe Gandhi's tactics and open Soviet support will speed her departure from office and that propaganda on these developments is much in Peking's interest.

* * *

Fighting in Beirut diminished sharply yesterday as the major Christian, Muslim, and Palestinian groups dismantled their barricades and Lebanese security forces flushed out snipers. Government spokesmen announced that major roads are open and called on civil servants to return to work.

Radicals backed by Libya and Iraq continue to engage in hit-and-run attacks designed to foment further clashes, but they are under pressure from Palestinian and Syrian leaders to lay down their arms. Violence continued beyond the cease-fire deadline in other Lebanese cities--particularly in the northern port of Tripoli--but by late yesterday afternoon had diminished significantly.

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LIBYAN-SOVIET RELATIONS

The relationship that has developed between Libya and the Soviet Union during the past year adds a new and potentially unsettling element to the Middle East situation. The concern of Egypt and other Arab moderates over Libyan-Soviet cooperation is such that it could hinder progress in peace negotiations. The size of the most recent arms agreements--although exaggerated in most accounts--raises the broader question of whether Moscow will gain a new strategic foothold in the Mediterranean.

Premier Kosygin's visit to Tripoli in mid-May and news that a 1974 military agreement between Libya and the Soviet Union had been expanded produced rumors, especially in Egypt, of massive arms contracts and Soviet acquisition of base rights in Libya.

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We discount the multi-billion dollar price tag [redacted] and we have reservations about some of the equipment they say the Soviets will send. Nevertheless, we think Moscow has promised Libya substantial amounts of additional equipment, including:

- additional MIG-23s;
- missile patrol boats;
- several artillery battalions;
- several hundred advanced tanks;
- more SAMs.

The Soviets have already delivered at least a dozen MIG-23s, several hundred tanks, and air defense equipment. The Libyans last year also ordered six submarines and some supersonic jet bombers.

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Based on preliminary calculations, we estimate that the arms agreements negotiated in 1974 and 1975 total nearly \$1 billion worth of military goods and services.

Moscow's sales commitments do not guarantee that Tripoli will receive all the weapons it wants, and it could take at least two or three years for most of the transfers of equipment to be completed. If the deal is fully carried out, however, it will provide the Libyans with far more equipment than they can possibly operate and will permit the Soviets to increase their physical presence in the area. It will create an arms pool that could be drawn on by Arab belligerents in any future war with Israel.

Moscow's Interests

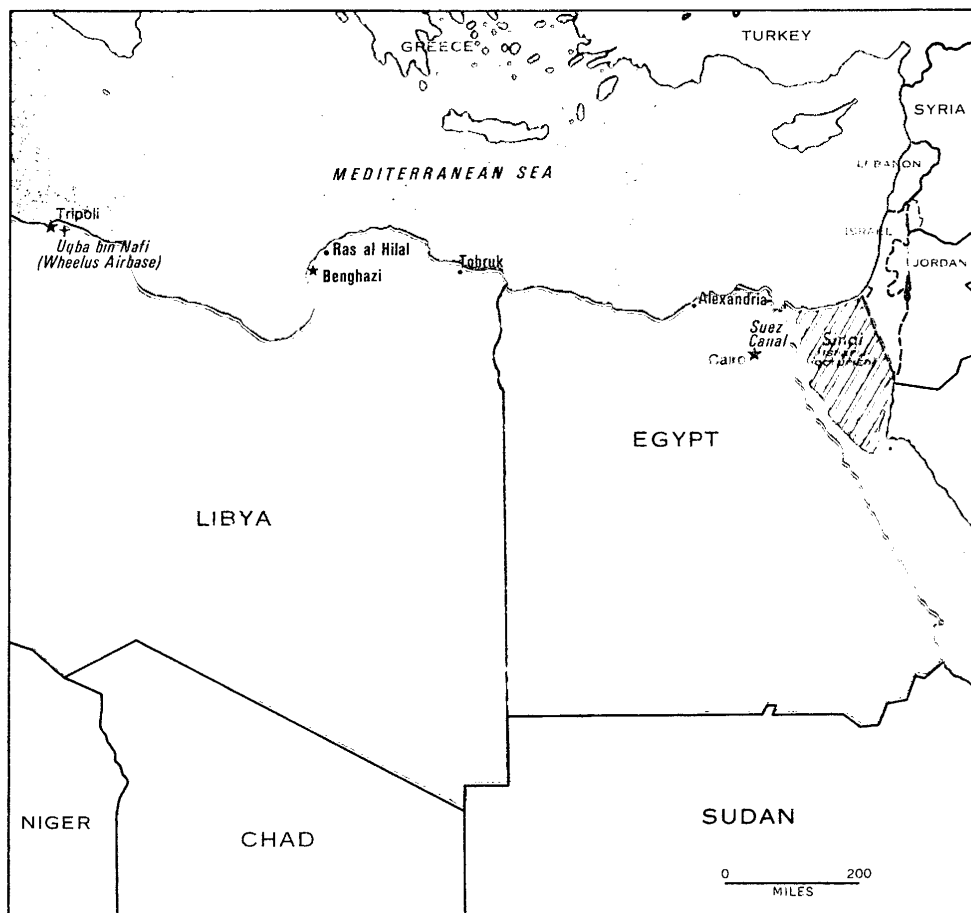
The Soviet Union's deteriorating relationship with Egypt has almost certainly been the main reason behind Soviet responsiveness to Libyan arms requests. The Soviets want to keep Sadat on notice that they have other options open to them in the Middle East and that they expect to gain leverage on him by dealing with Libya. The Soviets hope the contrast between their military generosity in Tripoli and their tight-fistedness in Cairo will have a useful educational effect on present or prospective clients. Moscow, however, has a realistic appreciation of Libya's status as an Arab political outcast and almost certainly does not see it as a satisfactory anchor for the Soviet position in the region.

Despite professions of unconcern about a substantial flow of weapons into Libya, the USSR is probably somewhat uneasy about Qadhafi's intentions. Military boss Grechko once branded him a "madman on top of a pile of gold." The Soviets may think they will have some influence over Qadhafi through their control of spare parts, ammunition, and training. Furthermore, should war break out, the Libyans would be dependent on Soviet air transport to move substantial amounts of heavy equipment to the Arab belligerents.

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Military Bases

The Soviets appear to have won some concessions from Tripoli regarding access to Libyan naval facilities. Tripoli apparently has decided to permit Moscow occasional port calls for bunkering and replenishment under tight Libyan controls. The Libyans also may be dangling the prospect of greater concessions in return for Soviet help in building Libyan naval facilities at Tobruk.

So far, however, no Soviet naval ships have been detected in Libyan waters. The last visit to Libya by a Soviet naval combatant occurred in 1969.

Moscow certainly recognizes that Libya's strategic location on the southern rim of the Mediterranean could be of advantage to the Soviet fleet if it is shut out of Egypt. Nevertheless, Tobruk is undeveloped and Libya's other ports have nothing comparable to the dockyard Soviet ships now use in Alexandria.

Should the Soviets gain unrestricted military use of Libya, they could build the necessary naval facilities. Moreover, the former US air base at Wheelus Field near Tripoli could give them the naval reconnaissance and strike capability they lost when they were ousted from Egypt in 1972.

In view of Libya's continuing opposition to foreign military bases, it is unlikely that Moscow counts on significant military use of Libya any time soon. If the Soviet Union has persuaded Libya to drop its opposition to Soviet naval visits, however, it certainly will press for further concessions.

Qadhafi's Motives

In negotiating the agreements, President Qadhafi is motivated chiefly by his desire to challenge Israel, its supporters, and those Arab leaders willing to accept a negotiated settlement. His swing toward Moscow is made easier by what he sees as Washington's

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unresponsiveness to Tripoli's recent diplomatic overtures, its footdragging on the release of US-manufactured and licensed arms, and its threatening posture toward Arab oil fields.

Qadhafi sees negotiation with Israel as dangerous and doomed to eventual failure. He, therefore, wants a well-equipped arsenal to fight a war he believes is inevitable. In the meantime, he plans to use his weapons to unnerve Israel and to try to block peace negotiations. In this campaign, President Sadat and Egyptian policy are his primary targets.

[REDACTED]

The changed emphasis of the Egyptian media from personalized attacks on Qadhafi to serious consideration of his actions and their implications suggests anxiety that his strategy could succeed.

Qadhafi may hope eventually to use Soviet arms to buy his way into another unity project with Egypt. His fixation on unity with Egypt often matches his desire to defeat Israel.

[REDACTED]

Whatever the state of his relations with Sadat, Qadhafi would support the Egyptian military fully in the event of renewed hostilities with Israel. He did so during the 1973 war, despite his fury over Sadat's rejection only a month earlier of union plans.

Libyan Trouble-Making

Soviet cooperation with Libya may also encourage Tripoli's adventurism elsewhere in the Middle East and in the Muslim world. The fedayeen--already beneficiaries of Libyan financial and military aid--are regarded by Qadhafi as an important anti-Israeli

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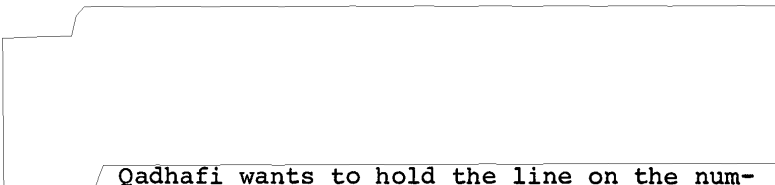
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instrument. Some of the Soviet arms going into Libya are, therefore, likely to end up in terrorist hands.

Attitudes Toward the New Relationship

Libya and the Soviet Union have not significantly narrowed their differences on such matters as the nature of communism, the right of Israel to exist, or the outlines of a Middle East settlement. Both are, nevertheless, prepared to overlook these fundamental differences for opportunistic, shorter term goals that center on their common desire to influence Egypt.



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Qadhafi wants to hold the line on the number of Soviet advisers and technicians in Libya and is willing to sacrifice efficiency and perhaps a great deal of equipment to do so. With the deep-seated xenophobia of the Libyan people working for him, he will continue to isolate Soviet personnel wherever possible. Nevertheless, the Libyan leader's brash confidence, impatience, and near blindness to some political realities may leave him vulnerable both to his own actions and to his new patron.



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Soviet Prospects

The course of Soviet relations with Egypt will influence Soviet policy in Libya. The Soviets do not want to foreclose the possibility of restoring their position in Cairo. While they will continue to nettle Sadat with the prospect of closer ties

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with Libya, they are unlikely to risk an open break with Egypt by pushing ahead with Libya too rapidly. But if relations with Sadat go further downhill, Moscow will intensify its efforts in Tripoli.

But Moscow faces obstacles. Libyan suspicion of the Soviets remains strong. Russians have not been able to establish good relations with more moderate Arabs and are much less likely to succeed with the Libyans. The relationship is based on opportunism rather than a parallel approach to the Middle East situation, and friction probably will be more or less constant. Moscow will have to remember that if the Libyans become dissatisfied, they have the financial resources and the political flexibility to seek alternate sources for essential military needs.

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